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Level III - Ethical and Professional Standards in Practice

Asset Manager Code of Professional Conduct

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Introduction

- The Asset Manager Code of Professional Conduct outlines the ethical and professional responsibilities of **firms** (“managers”) that manage assets on behalf of clients.
- The goal of this Code is to set forth a useful framework for all asset managers to provide services in a fair and professional manner and to fully disclose key elements of those services to clients.
- To be implemented effectively, the principles and standards embodied in the Code must be supported by appropriate compliance procedures.
- Clients must be able to count on full and fair disclosure from their Managers.

Adopting the Code and Claiming Compliance

- Firms adopting the code have to be in full compliance. Partial compliance or statements of exception are prohibited.
- Adoption of or compliance with the Code does not require a firm to amend its existing code of ethics or other policies and procedures as long as they are at least consistent with the principles and provisions set forth in the Code.
- “[Insert name of Firm] claims compliance with the CFA Institute Asset Manager Code of Professional Conduct. This claim has not been verified by CFA Institute.”

General Principles of Conduct

1. Act in a professional and ethical manner at all times.
2. Act for the benefit of clients.
3. Act with independence and objectivity.
4. Act with skill, competence, and diligence.
5. Communicate with clients in a timely and accurate manner.
6. Uphold the applicable rules governing capital markets.

Asset Manager Code of Professional Conduct

- A. Loyalty to Clients
- B. Investment Process and Actions
- C. Trading
- D. Risk Management, Compliance, and Support
- E. Performance and Valuation
- F. Disclosures

A. Loyalty to Clients

Managers Must:

1. Place client interests before their own.
2. Preserve the confidentiality of information communicated by clients within the scope of the Manager–client relationship.
3. Refuse to participate in any business relationship or accept any gift that could reasonably be expected to affect their independence, objectivity, or loyalty to clients.

B. Investment Process and Actions

Managers Must:

1. Use reasonable care and prudent judgment when managing client assets.
2. Not engage in practices designed to distort prices or artificially inflate trading volume with the intent to mislead market participants.
3. Deal fairly and objectively with all clients when providing investment information, making investment recommendations, or taking investment action.
4. Have a reasonable and adequate basis for investment decisions.

B. Investment Process and Actions

Managers Must:

5. When managing a portfolio or pooled fund according to a specific mandate, strategy, or style:
 - Take only investment actions that are consistent with the stated objectives and constraints of that portfolio or fund.
 - Provide adequate disclosures and information so investors can consider whether any proposed changes in the investment style or strategy meet their investment needs.
6. When managing separate accounts and before providing investment advice or taking investment action on behalf of the client:
 - Evaluate and understand the client's investment objectives, tolerance for risk, time horizon, liquidity needs, financial constraints, any unique circumstances (including tax considerations, legal or regulatory constraints, etc.) and any other relevant information that would affect investment policy.
 - Determine that an investment is suitable to a client's financial situation.

C. Trading

Managers Must:

1. Not act or cause others to act on material nonpublic information that could affect the value of a publicly traded investment.
2. Give priority to investments made on behalf of the client over those that benefit the Managers' own interests.
3. Use commissions generated from client trades to pay for only investment-related products or services that directly assist the Manager in its investment decision making process, and not in the management of the firm.
4. Maximize client portfolio value by seeking best execution for all client transactions.
5. Establish policies to ensure fair and equitable trade allocation among client accounts.

D. Risk Management, Compliance, and Support

Managers Must:

1. Develop and maintain policies and procedures to ensure that their activities comply with the provisions of this Code and all applicable legal and regulatory requirements.
2. Appoint a compliance officer responsible for administering the policies and procedures and for investigating complaints regarding the conduct of the Manager or its personnel.
3. Ensure that portfolio information provided to clients by the Manager is accurate and complete and arrange for independent third-party confirmation or review of such information.
4. Maintain records for an appropriate period of time in an easily accessible format.

D. Risk Management, Compliance, and Support

Managers Must:

5. Employ qualified staff and sufficient human and technological resources to thoroughly investigate, analyze, implement, and monitor investment decisions and actions.
6. Establish a business-continuity plan to address disaster recovery or periodic disruptions of the financial markets.
7. Establish a firmwide risk management process that identifies, measures, and manages the risk position of the Manager and its investments, including the sources, nature, and degree of risk exposure.

E. Performance and Valuation

Managers Must:

1. Present performance information that is fair, accurate, relevant, timely, and complete. Managers must not misrepresent the performance of individual portfolios or of their firm.
2. Use fair-market prices to value client holdings and apply, in good faith, methods to determine the fair value of any securities for which no independent, third- party market quotation is readily available.

F. Disclosures

Managers Must:

1. Communicate with clients on an ongoing and timely basis.
2. Ensure that disclosures are truthful, accurate, complete, and understandable and are presented in a format that communicates the information effectively.
3. Include any material facts when making disclosures or providing information to clients regarding themselves, their personnel, investments, or the investment process.

F. Disclosures

4. Disclose the following:

- a) Conflicts of interests generated by any relationships with brokers or other entities, other client accounts, fee structures, or other matters.
- b) Regulatory or disciplinary action taken against the Manager or its personnel related to professional conduct.
- c) The investment process, including information regarding lock-up periods, strategies, risk factors, and use of derivatives and leverage.
- d) Management fees and other investment costs charged to investors, including what costs are included in the fees and the methodologies for determining fees and costs.
- e) The amount of any soft or bundled commissions, the goods and/or services received in return, and how those goods and/or services benefit the client.
- f) The performance of clients' investments on a regular and timely basis.
- g) Valuation methods used to make investment decisions and value client holdings.
- h) Shareholder voting policies.
- i) Trade allocation policies.
- j) Results of the review or audit of the fund or account.
- k) Significant personnel or organizational changes that have occurred at the Manager.
- l) Risk management processes.

Conclusion